



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Mital, Schlossberg, Helgeson, Brown and Carlson
FROM: Deborah Hart, Chief Financial Officer; Adam Rue, Fiscal Services Supervisor;
Timothy Poublon, Senior Financial Analyst
DATE: March 27, 2020
SUBJECT: Annual Report on Power Trading Compliance
OBJECTIVE: Information Only

Issue

Board policy SD8, governing Power Risk Management, requires the Chief Financial Officer to present a report to the Board at least annually that covers trading and contracting compliance. This backgrounder provides information for calendar year 2019.

Background

Oregon statutes stipulate the appropriate scope for a governmental agency's investment of "surplus funds." Accordingly, EWEB's activities in the power markets must be associated with the provision of electricity to meet anticipated sales and generation forecasts. The Power Risk Management Committee (RMC) is responsible for oversight and compliance with Board policy SD8. This governance body sets limits and establishes Power Risk Management Procedures for power trading operations to protect the utility from financial instability and unacceptable risk.

Discussion

The eight specific responsibilities of the RMC outlined in Board policy SD8 are listed below with a characterization of compliance status and instances in which compliance was maintained through exception.

Anti-speculation Statutes: In Compliance

In order to comply with Board policy and anti-speculation statutes the Power Risk Management Procedures establish megawatt limits on market positions to monitor and reduce opportunities for speculation and to limit exposure to price volatility. However, occasional changes to forecasts, load, and/or generation result in position limits being exceeded. In those events, the Power Risk Management Procedures require positions to be brought back into compliance no later than the next trading day, unless approved by the Fiscal Services Supervisor and Power Planning Supervisor. EWEB was in compliance with this procedure in 2019, which includes forward market positions from 2019 through 2023.

The market position limit exceptions approved by the RMC or Fiscal Services Supervisor and Power Planning Supervisor are described below:

- In February, an updated water supply forecast created out of compliance positions in multiple periods throughout 2019 and 2020. The Fiscal Services Supervisor and Power Planning Supervisor approved to hold the positions until they could be traded back into compliance. These positions were cured as follows:
 - In order to allow the trading floor sufficient time to solicit competitive bids in the market, the 2019 out of compliance positions were traded into compliance the following week.
 - At February's RMC meeting, RMC voters approved to hold the Q3/Q4 2020 out of compliance positions until the updated annual load forecast was completed. The load forecast was finished in March, bringing Q3 2020 back into compliance. In March, RMC voted again to hold the Q4 2020 position until it could be traded back into compliance the following week.
- In May, generation from the Foote Creek resource was removed to reflect the upcoming sale of the project, creating an out of compliance position by 1 aMW for September 2019. In order to allow the trading floor sufficient time to solicit competitive bids for the small amount of energy needed, the Fiscal Services Supervisor and Power Planning Supervisor approved to hold the position until it could be traded back into compliance. The position was cured the following month.
- In June, an extension of the outage at Leaburg created out of compliance positions for all periods between November 2019 and September 2020. The Fiscal Services Supervisor and Power Planning Supervisor approved to hold the positions until they could be traded back into compliance. These positions were cured as follows:
 - In order to allow the trading floor sufficient time to solicit competitive bids in the market, the 2019 out of compliance positions were traded into compliance the following week.
 - At June's RMC meeting, RMC voters approved to hold the positions while staff assessed the use of options trade to cure the 2020 out of compliance positions. In August, three option trades were executed to move the positions back into compliance.
- In July, extended construction outages for the Carmen-Smith project created an out of compliance position for December 2019. The Fiscal Services Supervisor and Power Planning Supervisor approved to hold the position until it could be traded back into compliance, which occurred two weeks later.
- In August, a periodic update to EWEB's BPA entitlement which incorporates new information on outages, plant maintenance and water conditions, caused an out of compliance position in December 2019 by 5 aMW. The Fiscal Services Supervisor and Power Planning Supervisor approved to hold the position in order to allow coordination between the Mid-Term and Short-Term traders on the desired course of action. As a result, a daily option was purchased the following week to cure the compliance position, while also providing daily flexibility to the Short-Term traders to guard against volatile peak loads that can occur in December during cold weather.

On two occasions, EWEB's preschedule position at the end of the Short-Term trading day

exceeded compliance limits. These cases included an update to Slice projections late in the day that put the position slightly outside of its compliance limit, while the other case was due to receiving outage information from a co-generation project after the day-ahead market closed. In both cases communication occurred between the Short-Term and Real Time traders to provide up-to-date information to the Real Time group.

Development of Detailed Control Procedures: In Compliance

SD8 requires that the RMC establish and maintain Power Risk Management Procedures. Within these procedures, processes are defined that govern roles and responsibilities, daily trade activity, and exception authorization. In late 2019, staff met with internal stakeholders to review the procedures and make recommended edits both for clarification and to reflect evolving business practices. Updated Power Risk Management Procedures have since been developed and have been unanimously approved by the RMC in mid-March 2020.

Notification of changes to compliance limits: In Compliance

Recent updates were made to the Power Risk Management Procedures, however, no changes to compliance limits were recommended or approved by the RMC during the 2019 calendar year.

Oversee control infrastructure and monitor compliance: In Compliance

The RMC meets monthly to monitor and review compliance limits. In addition, the RMC is updated on the status of Short-Term compliance measures weekly to provide insight in both current compliance status and market trends that may influence future compliance periods.

Power Risk Management Procedures require that trades be entered into the trade capture system no later than the close of business on the day they are executed. On four occasions, structured transactions (trades negotiated beyond standard terms and conditions) or other environmental commodity products were entered into the system in the days following contract execution. These trade types require collaboration between multiple internal work groups and are typically more complex. Delays in trade entry often are the result of timing between receipt of the counterparty's signature, routing for appropriate signatures and input of the trade into the system.

Authorize and monitor risk reports for financial results, market positions and credit exposure:

In Compliance

RMC meetings are held monthly. Prior to each meeting, voting members receive up to date compliance reporting materials that provide the basis for monitoring financial results and compliance with market position limits and credit. In 2019, RMC meetings were held in-person each month, other than November, where standard meeting materials were still distributed via e-mail.

Review and approve contracts which impact EWEB's power portfolio: In Compliance

The RMC provides cross-functional oversight and review of any contracts that may have an impact on EWEB's portfolio to ensure that the Board mandate of risk mitigation and financial stability are maintained. Where contracts require Board approval, the RMC provides direction and preliminary review in advance of Board action. No contracts requiring Board approval under SD8 were executed in 2019 and no changes to the approval thresholds are being requested.

In 2019, the RMC approved three contracts that did not require Board approval, including:

- At staffs' recommendation, in August, the RMC approved a change to the Operating Reserves supplier to achieve cost savings.
- Also in August, the RMC approved a four month extension of an industrial customer contract to better align the contract with the budget cycle and provide more time to negotiate with the customer. The customer subsequently chose to go to standard tariff rates rather than extend a new contract.
- In September, the RMC approved a contract extension for another contract customer through September 2023.

Recommendation and Requested Board Action

This item is information only and no Board action is being requested at this time.